

MAKING GOVERNMENT WORK BETTER COMMITTEE

Executive Summary March 17, 2005

The meeting was convened at 1:30 p.m.

Members Present: Chair Chuck Reed, Vice Chair Linda J. LeZotte, Councilmember Ken Yeager, Councilmember David Cortese

Staff Present: Kay Winer, Danielle Kenealey, Scott Johnson, Jim Helmer, Jeff Clet, Larry Lisenbee, Kerry Burns, Eduardo Luna, Chris Constantin, Jerry Silva, Lee Price, Jennifer Carlino, Mark Danaj, Kenn Lee, Nancy Alford, Mark Burton, Ed Overton, Jim McBride, Patrick Sawicki, Inderdeep Dhillon

a. **Follow-up Report on Fire Department Overtime and Relief Staffing (Fire Department)**

Upon motion by Vice Chair LeZotte, seconded by Councilmember Yeager, the Committee accepted the Staff report.

c. **Police Department Marked Patrol Vehicle Fleet Size (Auditor) – heard out of order**

Upon motion by Vice Chair LeZotte, seconded by Councilmember Yeager, the Committee accepted the Staff report.

b. **Streamlining and Technology Update (City Clerk)**

Upon motion by Councilmember Yeager, seconded by Vice Chair LeZotte, the Committee accepted the Staff report.

d.,e. **Single Audit Report; Management Letter (Finance) were heard together as one report**

Upon motion by Vice Chair LeZotte, seconded by Councilmember Yeager, the Committee accepted the Staff report.

e. **Oral Petitions**

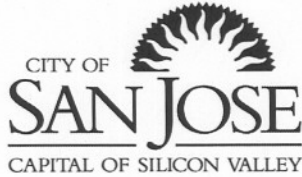
None

f. **Adjournment**

The meeting was adjourned at 3:10 p.m.

A handwritten signature in cursive script that reads "Chuck Reed".

**Chuck Reed, Chair
Making Government Work Better Committee**



MAKING GOVERNMENT WORK BETTER COMMITTEE
Meeting Report
April 21, 2005

Members Present: Chair Chuck Reed, Vice Chair Linda J. LeZotte, Councilmember Ken Yeager, Councilmember David Cortese

Staff Present: Kay Winer, Danielle Kenealey, Scott Johnson, Jim Helmer, Jeff Clet, Larry Lisenbee, Kerry Burns, Eduardo Luna, Chris Constantin, Jerry Silva, Lee Price, Jennifer Carlino, Mark Danaj, Kenn Lee, Nancy Alford, Mark Burton, Ed Overton, Jim McBride, Patrick Sawicki, Inderdeep Dhillon

The meeting was convened at 1:30 p.m.

a. Follow-up Report on Fire Department Overtime and Relief Staffing (Fire Department)

Jeff Clet, Fire Chief stated that since staff first reported on this, the cost drivers that had been identified were applied to the audit recommendations, resulting in a "fix" to the base budget. A system is in place and staff is confident that this will allow the department to be on time and on budget for the next fiscal year. It's been a cooperative effort with the budget and auditor's offices. Larry Lisenbee, Budget Director stated that this is a moving target and will need to be looked at over time and he is confident that this is the best product possible at this time. Chief Clet added that this would be reviewed on a yearly basis, beginning this December. Jerry Silva, City Auditor stated that the report was very professional and thorough and agreed that it will go a long way toward addressing this long outstanding issue. Chair Reed said that when this comes before council, it should be discussed separately, provide a summary of the basics and include the underlying need for overtime.

Upon motion by Vice Chair LeZotte, seconded by Councilmember Yeager, the Committee accepted the Staff report.

c. Police Department Marked Patrol Vehicle Fleet Size (Auditor) – heard out of order

Jerry Silva stated that this has been a continuing effort with the Police Department and General Services resulting in the need for an ongoing review regarding what the appropriate level is for the police marked vehicle fleet. Based on this analysis, staff has been able to reduce that contingency requirement by 15 vehicles. Based on the analysis conducted by General Services with regard to usage, there are seven fewer vehicles to replace this year due to not putting as many miles on those vehicles as anticipated. Because of this, the savings for this year will be \$959,178. Larry Lisenbee added that staff is using that information for the budget this year and next year as well. Bret Muncy, Police Sergeant, stated that he, the Police Chief, the Auditor's office and General Services have spent a lot of time working on this, weekly, and he agreed with the Auditor's comments. Vice Chair LeZotte thanked staff for the report

Upon motion by Vice Chair LeZotte, seconded by Councilmember Yeager, the Committee accepted the Staff report.

b. Streamlining and Technology Update (City Clerk)

Lee Price, City Clerk, gave an overview of the report regarding the \$85K set aside in the budget for technology for the Clerk's office. Chair Reed asked Lee to go over what was most important on the list and how it is prioritized. Lee replied that staff identified, along with the IT department, all the needs that could be addressed. The most important thing is to develop a workplan that can be incorporated into the IT master plan. Many of the goals have citywide impact regarding access to information. Staff felt there are some things that are less expensive that could be implemented and would have a significant impact, such as using the services of Netfile to outsource for development of a database for campaign disclosure. The cost would be an ongoing amount of \$40K per year. Staff anticipates some of that cost could be offset with the new lobbyist fees and it would also reduce staff time. Another thing that was considered was getting the city policy manual put into electronic form at a cost of about \$5K. Lee emphasized the need to replace old computers that are slow and "crash". Jim Helmer, Acting Director Information Technology added that about 10-15% of the computers are scheduled to be replaced prior to the move to the New City Hall and that the Clerk's office is included for replacement of computers.

Lee said that some older legacy systems in the office need replacement as well. The system for logging contracts and legislative history is one of those and is very labor intensive. Chair Reed asked how this interfaces with the actual documents. Lee replied that it doesn't. Nancy Alford, Assistant City Clerk added that a lot of the documents are listed in the database, so it serves as an index. Chair Reed asked if staff is looking at making the documents as well as the index available online. Lee replied that that would be the ultimate goal. Chair Reed asked what is contained in the legislative history database. Lee replied that it contained a brief description of City Council minute actions. The IT department is making progress on search capabilities for the website. Other projects include digitizing ordinances,

resolutions and contracts, rather than scanning them. Staff would like to explore online filing and tracking of the boards and commission's applications and agenda management software. Something that Tom Manheim, City Managers Office is looking at is an outside service provider to video stream the council meetings. Jim Helmer stated that staff has been meeting with departments to look for ways to streamline services and be less duplicative. Staff has found a need to work more as a team with the Auditor's office, the Attorney's office, Clerk's office and Council offices and are making progress on pooling resources resulting in much better network and server security. Staff will look to leverage those applications and databases that Lee mentioned across departments. Many of these minor costs Lee identified are already contained in the budget. The Planning, Building and Code Enforcement department has begun an initiative on the electronic data management system for storing more files electronically.

Councilmember Yeager asked if the \$40K amount for Netfile is over and above the \$72.3K amount listed in the report. Lee replied that the \$40K was factored in. Councilmember Yeager asked if this was something that would be moved on right away or if there were approvals needed first. Lee said she would like to have the committee's approval to move ahead with this. Councilmember Yeager asked if the online tracking of applications for boards and commissions could be easily done. Jim Helmer responded that staff agreed to assess what type of resources this would take and that it would not be a complex task. Vice Chair LeZotte commented that her priority as far as timing is what would be more timely and efficient for the citizenry.

Chair Reed wanted to know how the \$40K per year ongoing expense should be dealt with for Netfile and stated that it needs to be rolled into the budget before continuing with it. Lee replied that staff anticipates annual fees for lobbying activities will offset some of the cost and added that campaign finance disclosures will have the greatest impact being online. There are other ideas being considered for revenues that would offset those costs. If, over time, the office has a new method for electronically handling the records, the outsourcing would not need to be continued.

Chair Reed wanted to know how to make the search engine better on the website regarding the council agendas, minutes and synopsis. Jim Helmer replied that staff is working on that and can provide the committee with a summary. Lee replied that the technology budget for the Clerk's office could possibly help fund something to deal with that. She stated that if there were a document management system that was searchable, all that would be required would be a link to that database.

Chair Reed asked if the needs listed in the report were ranked in order of importance. Lee replied that they were ranked in order of what could be done first in terms of the budget. Chair Reed wondered how the public might rank them in order of importance. Jim Helmer said that staff is looking at what could be implemented quickly and easily where the budget is concerned and then set

priorities going forward into the next year. Chair Reed would like to see the list divided into what can be done with and without additional budget when going forward with it to council.

Kay Winer, Deputy City Manager asked if there was a prioritized list for expending the \$85K. Lee replied that there was and that \$5k was already spent. Councilmember Yeager wondered if this should be decided at this committee or if full council should discuss it. Chair Reed said that he is concerned about the additional budget issues and would like those things separated out when it goes to council.

Vice Chair LeZotte wanted to know if the ability to put the budget on the screen will be done after the move to the New City Hall. Lee replied that the ability to do that is there now.

Upon motion by Councilmember Yeager, seconded by Vice Chair LeZotte, the Committee accepted the Staff report.

d.,e. Single Audit Report; Management Letter (Finance) were heard together as one report

Jerry Silva introduced Kevin O'Connell, Macias, Gini & Company to report on the last part of the financial audit as follow-up to the first part that was presented in November of last year; including the City's internal controls over the financial statement and issues that came to their attention on rules and regulations. Another part is required under the single audit act. The last part will address the management letter.

Scott Johnson, Finance Director commented first that the single audit report includes schedules that, when added together, show that the City has received, in the last fiscal year, over \$75M in federal grants; or from other state programs. Staff has been working on monitoring and assisting the auditors on grant reporting regarding compliance. The City, this year, received no findings relative to the single audit. The other report, that used to be known as the management audit, is now called the internal controls report. The Auditor made four suggestions and staff is in the process of implementing those recommendations. One item in the prior year findings relates to Public Works overhead. Staff is currently reconciling what is required as allowable costs relative to bond funds.

Kevin O'Connell confirmed that there were no findings in the single audit and that the City is considered a low risk auditee. Chair Reed stated that he is still concerned about what happened in San Diego. Regarding the comment in the report that states, "the audit provides reasonable but not absolute assurances", he is concerned about material misstatements being made to the outside auditor. Kevin replied that the City Auditor has a role in that and he feels very confident that there are no material misstatements. One comment in the management letter states there

were reconciling differences that had not been resolved. Those comments are there, not because they are material to the audit, but as a matter of practice, they need to be addressed. Jerry clarified that this is called audit risk and there are a number of pronouncements and authoritative statements that govern the process designed to minimize the risk to the fullest extent possible. He is confident that the outside auditor is doing a good job at minimizing any risk to the greatest degree possible. Scott added that one thing the auditor does every year is review the City's policies and procedures and internal controls.

Kevin suggested that perhaps Chair Reed would want to meet with Macias, Gini & Company to look at where potential fraud risks might exist. Chair Reed agreed to that.

With reference to workers' compensation, Chair Reed asked for an explanation, regarding reliability guidelines, what might or might not be done based upon preliminary estimates. Jerry explained that the Auditor's office issued a report in 1993 regarding the method by which the City was estimating the liability for workers compensation. The policy at the time was that it was to be fully funded. There was a new pronouncement from GASB that allowed for either using an actuarial estimate; and the other stated that if an organization had a reasonable method of estimating, that would be an acceptable alternative. That was looked at and it was determined that the actuarial estimate had taken information (corrections to the database) and lumped it all into one year. The actuaries used that as a basis for projecting what future payments would be. This caused the liability to jump dramatically, which meant that the City would have had to set aside additional dollars. Staff went through the new database and looked at the estimated payments that the claims adjusters had made for each claim and concluded that they were doing a very good job. It was therefore decided that a different amount could be arrived at, reducing the estimated liability significantly. So the estimated liability approach was recommended over the actuarial approach. Over time, the City has reverted to using the actuarial approach. Macias, Gini & Company is recommending the policy allow for either approach. Jerry believes that may be a mistake resulting in the liability being higher than it needs to be. Working with Finance staff, it is estimated that the liability may be reduced by as much as \$22M. Jerry recommended putting this item on the Auditor's workplan to revisit this issue to evaluate both methods.

Scott added that the workers compensation division was transferred from Finance to Employee Services a couple of years ago and they did a report with the conclusion that reserves may be too high. He said he supported taking another look at it. Jerry added that in 1993 when the approach was changed, \$13M was reverted back to the general fund as a result and he supports taking another look at it as well. Chair Reed stated that we don't want to be overly optimistic and need to do it right.

Mark Danaj, Director Employee Services stated that the actuarial method has been used for the last two years. Staff has also had a claims review showing that reserves

may be too high and this is due to a lack of manpower to go back and adjust claims on a regular basis. Jerry added that this would need to be added to their review as well.

With regard to the net pension obligation (NPO) increase from \$2.3 million to \$3.2 million on June 30, 2004 in Federated and the recommendation to develop a funding plan, Chair Reed said he thought the plan was to write them a check. Kevin replied that it needs looked into. To the extent that you pay your bill, there is no liability. It was determined in 1998 that there was a \$2.3M liability. That liability has continued to grow due to interest and amortization factors to \$3.2M. The actuary should be factoring this in to the contribution requirement when they ask for the check each year. So, although it's not a material item for the audit, the recommendation is for staff to take a look into it so that the liability goes away.

Ed Overton, Director Retirement Services stated that any actuarial gain or loss that's incurred over any two-year period is picked up by the actuary and funded in that year's contribution rates and the City pays it. He doesn't think there is an NPO as there have been two actuarial reports since this NPO was created and he is sure that the actuary picked that up and put it into the rates.

Chair Reed wanted to know how much would need to be set aside, effective dates and if this is built into the budget forecast. Mark Burton, Deputy Director Finance said that the requirement is not for funding but for recording of the obligation. The budget process is dependent on how the City addresses the other post employment benefits such as health care. Scott explained that the funding horizon would be a larger number and it's really dependent on policy. Jerry stated that the City is very conservative and far ahead of other jurisdictions in this regard.

Chair Reed wanted to know how this differs from ordinary pension liabilities. Kevin replied that it worked the same way in that the actuary calculates how much needs to be paid in and, to the extent that you pay into it, you don't have a liability; and that if you don't pay into it, you do.

Councilmember Cortese asked to what extent the federated board has say-so over this. Ed replied that the federated board is aware of this and this specific question is addressed at the end of the year when those reports come back. There is a wide range of options for funding. There needs to be a different funding structure option than the normal thirty years to get this caught up. Councilmember Cortese wanted to know if the board has the ability to make the decision. Ed replied that it did.

Chair Reed wanted to know if funding on a 10 – 15 year horizon means there is enough money in the bank to fund post retirement health care benefits. Ed said that was correct and added that the money is rolled forward every two years. Councilmember Cortese said he is concerned about what could happen because of dealing with three separate entities. Ed responded that each board has a health committee and they will be coming together to discuss this issue. Councilmember

Cortese asked at what point it is opportune for the discussion to occur with everyone at the table and feels that the council is the missing link. Mark Burton stated that there is an inter-collaborative meeting that staff is putting together, scheduled for April.

Councilmember Reed wanted clarification on the \$30M and \$70M price tags. Scott replied that those are the net amounts of the actuarial value of assets.

Councilmember Reed asked if we are on the right track, if this is the right process and the right way. Kevin replied that the first step is just getting the numbers. Once that's done, it can be seen what kind of impact there will be on contribution numbers and it can be determined how to proceed. Councilmember Reed asked if this would be a one-time contribution or if it would be ongoing. Kevin replied that it is ongoing. Ed added that it should be funded in a similar manner to all other pension benefits. So some amount will be added to the annual contribution to take care of this prior liability. Normal costs are being funded now. Jerry said that there would be additional pronouncements coming regarding what the permissible horizon to fund those amounts is. Councilmember Reed wanted to know what the annual cost is going to be. Kevin replied that it is unknown until the number is determined. Councilmember Reed asked when the numbers would be available. Kevin replied that there is an estimate given for police and fire. Ed stated that it would be available at the end of the calendar year.

Upon motion by Vice Chair LeZotte, seconded by Councilmember Yeager, the Committee accepted the Staff report.

f. Oral Petitions

None

g. Adjournment

The meeting was adjourned at 3:10 p.m.



**Chuck Reed, Chair
Making Government Work Better Committee**